

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-035  
FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2008 AND 2007

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AUDIT STAFF

Ron Shackelford, CPA  
Shakil Anwar, CPA  
Jason Jones

Audit Chief  
Assistant Audit Chief  
Auditor

AUDIT REPORT NUMBER

#09-035

35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Cunningham, President  
Board of Directors  
35th DAA, Merced County Fair  
900 Martin Luther King Junior Way  
Merced, California 92626

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 35th District Agricultural Association (DAA), Merced County Fair, Merced, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 35th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

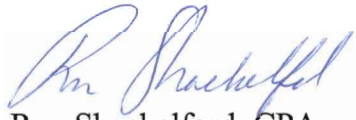
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 35th DAA, Merced County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 35th DAA, Merced County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-035, on the 35th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 35th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA  
Chief, Audit Office

August 28, 2009

**35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION  
Years Ended December 31, 2008 and 2007

	<b>Account Number</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>			
Cash in Bank	111-117	\$ 353,544	\$ 554,969
Accounts Receivable, Net	131	23,749	41,079
Deferred Charges	143	3,802	3,741
Construction In Progress	190	14,484	-
Land	191	179,771	179,771
Buildings and Improvements, Net	192	958,286	911,968
Equipment, Net	193	8,909	1,773
<b>TOTAL ASSETS</b>		<b><u>1,542,545</u></b>	<b><u>1,693,301</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities and Other Credits</b>			
Accounts Payable	212	41,670	21,374
Payroll and Other Liabilities	211, 223-226	678	1,069
Deferred Income	228	120,409	185,362
Guaranteed Deposits	241	500	4,250
Compensated Absences Liability	245	43,770	41,486
<b>Total Liabilities and Other Credits</b>		<b><u>207,027</u></b>	<b><u>253,541</u></b>
<b>Net Resources</b>			
JLA Reserve	251	(8,896)	9,962
Net Resources - Operations	291	197,448	336,287
Net Resources - Capital Assets	291.1	1,146,966	1,093,511
<b>Total Net Resources Available</b>		<b><u>1,335,518</u></b>	<b><u>1,439,760</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 1,542,545</u></b>	<b><u>\$ 1,693,301</u></b>

**35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY**  
Years Ended December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
<b>REVENUE</b>			
State Apportionments	312	\$ 124,000	\$ 124,000
Capital Project Reimbursement Funds	319	119,055	76,498
Admissions	410	392,814	408,157
Commercial Space	415	52,925	54,051
Carnival	421	211,659	198,482
Food Concessions	422	108,256	112,188
Exhibits	430	18,880	18,065
Horse Show	440	606	784
Attractions - Fairtime	460	49,183	51,158
Miscellaneous Fair	470	87,838	102,406
JLA - Revenue	476	458,529	29,471
Non-Fair Revenue	480	617,744	665,256
Prior Year Adjustment	490	55	1,943
Other Revenue	495	26,456	26,097
<b>Total Revenue</b>		<u><b>2,268,000</b></u>	<u><b>1,868,556</b></u>
<b>EXPENSES</b>			
Administration	500	422,073	366,105
Maintenance and Operations	520	602,477	553,839
Publicity	540	110,698	114,998
Attendance	560	122,391	107,969
Miscellaneous Fair	570	44,641	30,792
JLA - Expense	576	477,386	36,965
Premiums	580	42,464	47,553
Exhibits	630	130,800	122,831
Horse Show	640	1,162	1,484
Attractions - Fairtime	660	340,137	358,926
Equipment	723	12,622	(1,270)
Prior Year Adjustments	800	4,374	72,361
Depreciation Expense	900	56,126	61,111
Other	850, 912	4,891	240
<b>Total Expenses</b>		<u><b>2,372,242</b></u>	<u><b>1,873,904</b></u>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		(104,242)	(5,349)
Resources Available, January 1		1,439,760	1,445,109
<b>Resources Available, December 31</b>		<u><b>\$ 1,335,518</b></u>	<u><b>\$ 1,439,760</b></u>

**35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$(104,242)	\$ (5,349)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable, Net	17,330	31,497
(Increase) Decrease in Deferred Charges	(61)	(2,722)
Increase (Decrease) in Deferred Income	(64,953)	104,548
Increase (Decrease) in Accounts Payable	20,296	(24,791)
Increase (Decrease) in Payroll Liabilities	(391)	861
Increase (Decrease) in Compensated Absence Liability	2,284	5,443
Increase (Decrease) in Guarantee Deposits	(3,750)	(14,850)
Total Adjustments	<u>(29,245)</u>	<u>99,986</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>(133,487)</b></u>	<u><b>94,637</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction In Progress	(14,484)	-
(Increase) Decrease in Buildings & Improvements	(46,318)	(25,405)
(Increase) Decrease in Equipmen	<u>(7,136)</u>	<u>6,713</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(67,938)</b></u>	<u><b>(18,692)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
<b>Net Cash Provided (Used) by Financing Activities</b>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(201,425)</b>	<b>75,945</b>
Cash at Beginning of Year	554,969	479,024
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 353,544</b></u></u>	<u><u><b>\$ 554,969</b></u></u>



**35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2008 and 2007

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The 35th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Merced County Fair each year in Merced, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

**Basis of Accounting** - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

## NOTE 2

### **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

### NOTE 3

### **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash & Change Funds	\$ 5,790	\$ 250
Cash in Bank - Operating	54,594	71,750
Cash in Bank - Payroll	1,247	1,183
Cash in Bank - LAIF	282,043	464,680
Cash in Bank - JLA	9,870	17,106
	<hr/>	<hr/>
Total Cash and Cash Equivalents	\$ 353,544	\$ 554,969
	<hr/>	<hr/>

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	\$ 36,747	\$ 49,354
Allowance for Doubtful Accounts	(12,998)	(8,275)
	<hr/>	<hr/>
Accounts Receivable - Net	\$ 23,749	\$ 41,079
	<hr/>	<hr/>

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	\$ 4,039,881	\$ 3,941,477
Less: Accumulated Depreciation	(3,081,595)	(3,029,509)
Building & Improvements - Net	<hr/>	<hr/>
	\$ 958,286	\$ 911,968
	<hr/>	<hr/>
Equipment	\$ 171,585	\$ 160,449
Less: Accumulated Depreciation	(162,676)	(158,676)
Equipment - Net	<hr/>	<hr/>
	\$ 8,909	\$ 1,773
	<hr/>	<hr/>

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

**RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 35th DAA Board of Directors
1	Chief Executive Officer, 35th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA

MANAGEMENT REPORT #09-035

YEAR ENDED DECEMBER 31, 2008



35TH DISTRICT AGRICULTURAL ASSOCIATION  
MERCED COUNTY FAIR  
MERCED, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2008

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AUDIT STAFF

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Ron Shackelford, CPA  
Shakil Anwar, CPA  
Jason Jones

Audit Chief  
Assistant Audit Chief  
Auditor

MANAGEMENT REPORT NUMBER  
#09-035

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Jim Cunningham, President  
Board of Directors  
35th DAA, Merced County Fair  
900 Martin Luther King Junior Way  
Merced, California 92626

In planning and performing our audit of the financial statements of the 35th District Agricultural Association (DAA), Merced County Fair, Merced, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Merced County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 35th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 35th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 35th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 35th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 35th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 35th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: delegated and opportunity purchases, weakness in cash account reporting, accounting for food and beverage expenditures, accounts payable, and accounts receivable. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 35th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### DELEGATED AND OPPORTUNITY PURCHASES

The Fair did not follow the State purchasing procedures as required by Department of General Services (DGS). A Standard 65, Contract/Delegation Purchase Order, or an internal purchase order was not completed for purchases over \$100. The purchase order log was used as a purchase order instead of completing a Standard 65. According to the Accounting Procedures Manual (APM) § III, 2.11, Accounting Controls, a purchase order should be completed for all purchases over \$100 and approved by the appropriate level of management prior to making purchases. This was a prior year finding in 2005-2007.

The Fair made opportunity purchases during 2008; however, the Fair did not document that purchases made locally were at a price equivalent to or less than that available through the state purchasing program. Opportunity purchases allow DAAs to purchase commodities from any source provided it meets or beats the state price. In addition, § 10321 of the Public Contract Code (PCC) states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. This was a prior year finding.

#### *Recommendations*

- 1. The Fair should comply with the purchase order requirements by completing a Purchase Order (Standard 65 Form) for all purchases over \$100 and ensuring all purchase orders contain a signature from the CEO to certify an approval took place prior to making any purchases.*

### WEAKNESS IN CASH ACCOUNT REPORTING

Our office noted the Fair did not use the correct information to prepare Standard Form 445, "Report of Bank/Savings & Loan Association Account Outside the Treasury System". For its operating, payroll, junior livestock auction, and premium cash accounts, the Fair reported the June 30, 2008 bank balances instead of the book balances. The State Treasurer's Office (STO) requires the book (general ledger) balance, rather than the bank statement balance, to be reported for each bank account outside the State Treasury. As a result, the Standard Form 445 was overstated by \$93,936. This was a prior year finding.

#### *Recommendation*

- 2. Prior to submission to the State Treasurer's Office, the Fair should ensure Standard Form 445, "Report of Bank/Savings and Loan Association" reflects the general ledger balance, rather than bank statement balance, at June 30 for each bank account outside the State Treasury.*

## ACCOUNTING FOR FOOD AND BEVERAGE EXPENDITURES

The Fair made a good attempt to, however did not fully comply with the APM requirements over public relations and promotional expenses. Specifically; the \$11,600 spent for the director's lounge dining during the fair was not supported by documentation detailing the specific individuals attending and the benefit received by the Fair. The APM requires specific and detailed information for all persons incurring such expenses. All claims must include the names of all recipients of the item or benefit, purpose of the expenditure, and justification for providing food or a meal specifying the topics discussed during the event and the necessity of or the benefits expected to accrue to the Fair by entertaining.

### *Recommendation*

3. *At the time of the purchase/expenditure, the Fair should follow the Division of Fairs & Expositions (F&E) internal policy by requiring that all claims for payment of promotional or public relations expenses include the names of all recipients of the item, specific business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining.*

## ACCOUNTS PAYABLE

The Fair made an attempt to, but did not fully accrue all liabilities at year-end. Our office noted unrecorded liabilities of \$13,933 at year-end relating to 2008 expenses that were subsequently paid in 2009. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual Statement of Operations.

### *Recommendation*

4. *The Fair should continue to accrue liabilities at year-end for all known payables, including estimates of utilities, even though billings have not yet been received, until the financial records have been closed and the Statement of Operations (STOP) has been prepared.*

## ADMISSIONS REVENUE

Our office noted internal control weaknesses over the management of admission revenue received during fairtime that exposed the Fair to possible loss. During the fair, \$54,500 from admissions and parking sales were used to augment the ATM change fund. The State Administrative Manual (SAM) § 8032.4 states, "Agencies will not disburse or withhold receipts for the purposes of establishing or augmenting an over-the-counter change fund."

*Recommendation*

5. *The Fair should comply with SAM § 8032.4 and improve internal controls over the currency it uses during the fair by ensuring all cash is deposited intact and not used to augment change funds.*

## NON-REPORTABLE CONDITIONS

### ACCOUNTING FOR FIXED ASSETS

Our office examined the Fair's fixed assets account as recorded in the year-end accounting records, and the following accounting errors or omissions were noted:

- a. The Fair capitalized costs related to the purchase of 50 tables that did not meet capitalization requirements as set forth by the Department of Finance (DOF) of having a per unit cost greater than \$5,000 or more and having a useful life of one year or longer. By purchasing 50 tables for unit cost of \$140 no single unit met the \$5,000 requirement.
- b. The Fair did not determine if it had a lease that met the requirements associated with a capital lease when entering into a long-term 60-month copier lease agreement. Generally accepted accounting principles (GAAP) require a lease to be capitalized when the lease's life exceeds 75% of the life of the asset, the ownership transfers to the lessee at the end of the lease term, there is an option to purchase the asset at a "bargain price" at the end of the lease term, or the present value of the lease payments exceeds 90% of the fair market value. This was a prior year finding.

#### *Recommendations*

*The Fair should follow DOF asset capitalization requirements and only capitalize assets that have a cost of at least \$5,000 and a useful life of at least one year.*

*The Fair should comply with GAAP by capitalizing a lease once it is determined any of the criteria is met.*

### ACCOUNTS RECEIVABLE

The Fair did not review its accounts receivable balances at year-end for collectibility. Our office noted \$4,722 in accounts receivable remained outstanding for over one year, which the Fair seemed doubtful to collect. According to GAAP and to APM § I, Ch 2.41, once collection of an account receivable becomes doubtful, the Fair should establish an allowance for doubtful accounts for the outstanding balance. This process presents the Fair's overall net assets more accurately in the year-end financial reports.

#### *Recommendations*

*The Fair should monitor all outstanding account balances on a regular basis to determine their collectibility. Once all means of collection are exhausted, the Fair should record the uncollectible amount in Allowance for Doubtful Accounts to properly state accounts receivable at year-end.*



**LIMITATIONS ON SEASONAL EMPLOYEES**

The Fair circumvented the 194-day limitation for seasonal employees by reclassifying a seasonal employee to temporary status once the employee reached the 194-day limitation. The employee did not resign the civil service appointment or even cash out leave when the Fair reclassified the employee to a temporary status. The Fair even paid the employee overtime and five days of sick or vacation time during the two months subsequent to reclassifying him.

The Report of Appointment signed by every seasonal employee limits the number of days that can be worked by the employee in any 12 consecutive months to no more than 194-days. By an employee not resigning the seasonal position when being reclassified to temporary status, the employee can claim additional service or leave credits for time not credited by the Fair.

*Recommendation*

*The Fair should limit its seasonal employees' work days to no more than 194-days within 12 consecutive months.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



January 4, 2010

Mr. Ron Shackelford, CPA  
Chief, Audit Office  
State of California  
Department of Food and Agriculture  
1220 N St, RM 344  
Sacramento, CA 95814

Dear Mr. Shackelford:

In response to the audit of the 2008 financial records of the 35<sup>th</sup> District Agricultural Association, I offer the following responses to the recommendations.

1. DELEGATED AND OPPORTUNITY PURCHASES

We will conform to the recommendation beginning immediately.

2. WEAKNESS IN CASH ACCOUNT REPORTING

The required procedure has already been implemented.

3. ACCOUNTING FOR FOOD AND BEVERAGE EXPENDITURES

Compliance is ongoing, full compliance will be implemented during the 2010 Fair.

4. ACCOUNTS PAYABLE

Will comply with the recommendation as will be shown in the 2009 year-end report.

## 5. ADMISSIONS REVENUE

A separate ATM account will be opened in January 2010. Replenishment and reconciliation will be facilitated from that account.

## NON-REPORTABLE CONDITIONS

## ACCOUNTING FOR FIXED ASSETS

- a. Asset capitalization requirements will be met, beginning immediately.
- b. Current lease on the copier expires 1/25/10. Determination will be made by then as to the life of the asset in meeting GAAP requirements. If a new lease on a new machine is made at that time, it will be capitalized based on the purchase value of the new machine. If we purchase the existing machine, we will capitalize based on purchase price.

## ACCOUNTS RECEIVABLE

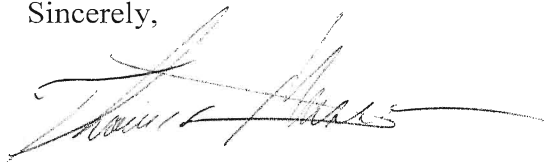
Will comply beginning immediately. Applications for Discharge From Accountability were sent to F&E in 2007. We are awaiting their response.

## LIMITATIONS ON SEASONAL EMPLOYEES

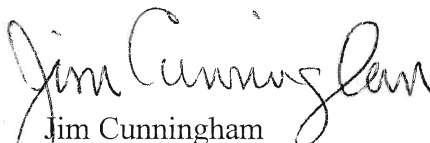
This requirement has already been met.

Please do not hesitate to contact me should you have any questions regarding our responses. Thank you for your guidance and cooperation.

Sincerely,



Thomas D. Musser, CFE  
CEO, 35<sup>th</sup> DAA



Jim Cunningham  
President

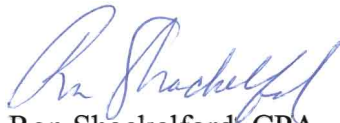
**C DFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 35th DAA, Merced County Fair, for its review and response. We have reviewed the response, and it adequately addresses the findings contained in this report.

### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between August 17, 2009 and August 28, 2009. My staff met with management on August 28, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

August 28, 2009

## REPORT DISTRIBUTION

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1	President, 35th DAA Board of Directors
1	Chief Executive Officer, 35th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office